



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** David Sykes

**SUBJECT:** SEE BELOW

**DATE:** May 17, 2012

Approved

Date

5/25/12

**SUBJECT: SAN JOSE MCENERY CONVENTION CENTER EXPANSION AND RENOVATION PROJECT UPDATE**

## BACKGROUND

The San José McEnery Convention Center (the "Convention Center") opened in 1989 and currently offers 425,000 square feet of exhibit, ballroom and meeting space. Since 1989, San Jose's hotel and tourism industry has grown to an estimated \$200 million hotel revenue industry, generating significant tax revenues which support city services, the City's convention and cultural facilities, arts programs, and the Convention and Visitors Bureau. The Convention Center Expansion and Renovation Project (the "Project") is, among other things, adding an additional 125,000 square feet of flexible ballroom and meeting room space, increasing the Convention Center space to 550,000 square feet of usable space. This Project is a key component of the City's Economic Strategy and is being delivered through a Public Works led design-build approach, similar to the award-winning San José Norman Y. Mineta International Airport's successful billion dollar terminal area improvement program.

In 2009, the Convention Center Facilities District (the "CCFD") was formed to institute a special, dedicated tax on hotel properties to finance the project. The tax can only be used to support capital improvements at the Convention Center and includes ongoing revenue for future capital repair and replacement needs.

As described in the report to City Council on February 23, 2010, the Project components consist of the following expansion and renovation elements:

### Expansion elements

- A 35,000 square feet column-free ballroom with 30 foot clear ceilings and operable wall divisibility.
- 25,000 square feet of flexible meeting room space.
- Pre-function, food preparation in the back of the house areas and systems to service the expansion space.
- Way finding and signage package connecting the expansion and existing Convention Center;

- Construction to a LEED-Silver rating.
- Furniture, fixtures and equipment for the expansion.
- An exterior architectural treatment that enlivens the area surrounding the Convention Center and the downtown.
- Demolition of the former Martin Luther King Jr. Library and site preparation for the expansion.
- Restrooms to accommodate the additional space needs.
- Off-site sidewalk improvements as required by the City.

#### Renovation Elements

- Installation of a new central utility plant. This will support the expansion area and existing Convention Center as well as the adjacent Hilton Hotel that receives utilities under contract with the City. This work includes replacing the heating, ventilation and air conditioning system including related pumps, chillers, exhaust fans, boilers, heat exchangers, cooling towers and related electrical systems.
- Installation of a new fire alarm system for the entire Convention Center.
- Installation of a direct digital controls building management system for the entire Convention Center.
- Construction of necessary ADA improvements needed to integrate the expansion space with the garage and lobby areas of the existing building.

In addition to these elements of the Project, other renovation improvements were identified as desirable if the construction budget had funds available. These include:

- Cosmetic and functional upgrades in the existing ballroom and exhibit space.
- Upgrades to the existing kitchen, restrooms and employee spaces.
- Additional ADA improvements in the existing space as provided for in the ADA improvement plan for the Convention Center and garage.

On December 14, 2010, City Council authorized the City Manager to negotiate and execute a contract with Hunt Construction for a not-to-exceed amount of \$117,000,000 (see table below for the various cost elements). Council also approved a City-controlled contingency in the amount of \$3,000,000. On April 12, 2011, the City issued \$107.4 million of special hotel tax bonds and the Financing Authority issued \$31.0 million in lease revenue bonds for a total of \$138.4 million to finance the costs of the \$120 million Project

| <b>Element</b>   | <b>Cost</b>          | <b>Notes</b>                                 |
|------------------|----------------------|--|
| Demolition       | \$2.6 million        | Old King Library                             |
| New Construction | \$62.8 million       | 125,000 new square feet                      |
| Central Plant    | \$13.7 million       | New chillers, boilers, cooling towers, pumps |
| Systems          | \$12.9 million       | New fire alarm, building management system   |
| Renovation       | \$20.0 million       | Cosmetic front of house                      |
| Contingency      | \$3.0 million        | 2.5% of \$120 million                        |
| Delivery Costs*  | \$5.0 million        | Project delivery, Public Art                 |
| <b>Total</b>     | <b>\$120 million</b> |  |

\* The delivery costs are \$3.4 million for project delivery, \$600,000 for special inspection and testing, \$600,000 for public art, and \$400,000 for construction support consultants.

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In collaboration with Team San José (TSJ), the Hoteliers, and the Downtown Association, design work was initiated in July and ran concurrently with the initial construction activity of demolition of the Old Martin Luther King Library (OMLK). One of the benefits of the design-build project delivery process was quickly realized by this ability to run design and construction activities in parallel. The final design has been completed and final permitting is underway.

At the start of 2011, Public Works staff negotiated and finalized the details of the design-build contract with Hunt Construction in preparation for an immediate execution upon availability of bond funds. In addition, task orders were prepared that identified discrete portions of work for the Project and authorized Hunt to proceed on these tasks for a stipulated not-to-exceed dollar amount. Task orders have been executed for design work through 100% construction documents, hazardous materials abatement and demolition, deep foundations, Central Utility Plant (CUP) equipment that will require extended time for procurement, and structural steel.

### **ANALYSIS**

Hunt prepared a comprehensive Facility Assessment Study during the course of design of the Project. The results of the Study indicated that the City needs to replace the 25 year old hot and cool water Heating Ventilation and Air Conditioning (HVAC) loop in the existing building. Replacing the loop would significantly reduce the risk of the both new and old components of the HVAC system failing. Replacing the loop would also help to protect the substantial investment the City is making with regard to installing a new central utility plant.

A study of the existing main kitchen capacity was also completed and the study indicated that the existing kitchen was not adequate to serve a sold out event considering the new space. In fact the existing kitchen was strained to serve the existing Convention Center.

The scope of the Project currently underway was the result of a compromise between stakeholders and the City to achieve the new square footage needed to make the center larger and more competitive vs. complete improvement of the centers basic infrastructure. The HVAC and kitchen upgrades are the most critical items identified needing improvement but deficiencies in the building will remain. Staff is addressing in the base Project the most critical deficiencies that are known as of the date of this memorandum. In addition, staff intends to use any remaining funds in the original Project and/or from the additional funding now being requested, to address outstanding deficiencies. Moreover as capacity in the CCFD improves further investment in the center will be programmed by staff as part of future annual budget processes.

The Administration recommends addressing the HVAC repairs and kitchen renovation now, as repairs will be less costly during the course of the expansion/renovation project than if the improvements were deferred. To address the HVAC repairs and kitchen renovation, additional funding, above the \$120 million already allocated for this Project, is required. Therefore, as included in the 2012-2013 Proposed Operating Budget in the Convention and Cultural Affairs Fund, the administration recommends these improvements to be funded through a commercial paper issuance to be repaid by revenues in this fund over a seven year period. A memorandum to the City Council and Financing Authority Board, scheduled for consideration on June 19, 2012, will further outline the funding need and seek authorization for the issuance of commercial paper for this purpose. A description of these projects is provided below:

- *HVAC Improvements* – The base Project is replacing the entire central utility plant which produces hot and chilled water for heating and cooling the Convention Center and the Hilton hotel. In addition, the Project will install a new controls system to regulate the HVAC system. Recent inspection confirms that the existing hot and cold water pipes that looped through the building have severe corrosion and are leaking. In addition, most of the valves are frozen and/or leaking. The additional cost to repair the building HVAC system to good working order is approximately \$5.1 million. Repair of these additional HVAC system components will not only help prevent their failure in the future, but will help protect and ensure the proper performance of the new HVAC improvements being installed as part of the base Project. As part of the 2012-2013 Proposed Operating Budget, the administration proposes to fund this repair through issuance of commercial paper notes to be repaid by the Convention and Cultural Affairs Fund over 7 years.
- *Kitchen Improvements* – The base Project includes the construction of a plating kitchen adjacent to the new and expanded ballroom. This will allow hot and cold food to be transported from the main kitchen in bulk and be plated for consumption in the plating kitchen. An evaluation of the existing kitchen performed by the design team identified capacity issues in the main kitchen to serve a fully sold out expanded Convention Center. The Project has funded a 35% design effort to gain a better understanding of the cost to improve the kitchen capacity. That effort is expected to be completed in early June. The preliminary cost estimate for the kitchen improvement is approximately \$4.9 million. As with the HVAC improvements, as part of the 2012-2013 Proposed Operating Budget, the administration proposes to fund this repair through issuance of commercial paper to be repaid by the Convention and Cultural Affairs Fund over 7 years.

As required by the construction contract, the City and Hunt will negotiate a Guaranteed Maximum price for the improvements. If the price can be negotiated lower than the current estimate of \$10 million, additional improvements to the center will be installed on a priority basis.

At this time, the redesign of Convention Center Plaza and FF&E upgrades are not fully funded and not planned to be funded through the commercial paper issuance. The base Project is currently funding the reconstruction of about 1/3 of the plaza as a component of the expansion Project. In addition, staff has reserved funding for a minimal upgrade to the remainder of the plaza. In order to improve the plaza to a level necessary to allow the plaza to be programmed for events such as receptions and parties additional funding of approximately \$1.0 million will be required. Staff is exploring alternatives to funding an enhanced plaza. If funding cannot be identified the minimal upgrade will be constructed.

FF&E needs, not funded by the Project, include podiums, tables, chairs, stages, garbage cans, etc. These items have not been upgraded in over 20 years and impact the customer experience. FF&E is minimally funded in the 2012-2013 Proposed Operating Budget (\$300,000 in the Convention and Cultural Affairs Fund). Additional funding for this purpose may be pursued at a later time to ensure the Convention Center is adequately equipped to grow revenue in the expanded facility.

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### **Construction Activities and Schedule**

The old Martin Luther King Library has been demolished, the site has been filled and the pile driving is complete. The foundation is under construction, and renovation of the existing Convention Center will commence in June. The Project is on schedule for completion in September 2013.

### **COORDINATION**

This memorandum was coordinated with the Office of Economic Development, Finance, and City Attorneys Office.

A handwritten signature in black ink, appearing to read 'D. Sykes', with a long horizontal stroke extending to the right.

DAVID SYKES  
Director of Public Works